



North Carolina Department of the Secretary of State

Hon. Elaine F. Marshall, Secretary

Securities Division



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INVESTOR ALERT: Investment Schemes Involving Cryptocurrencies

The Securities Division of the North Carolina Department of the Secretary of State is issuing this Investor Alert to warn investors of fraudulent and illegal investment schemes taking advantage of the recent upsurge in the public's interest in cryptocurrencies.

Cryptocurrencies are digital assets created by companies or individuals that take the form of a virtual coin or token. Bitcoin is an example of one such cryptocurrency. Currently, there are over one thousand other virtual coins or tokens in existence. Because these cryptocurrencies are created using open source computer coding and their values are not backed by any government or banking institution, literally anyone can create his or her own virtual coin or token and offer them for sale. Companies and individuals create cryptocurrencies and sell them to the public through initial coin offerings (ICOs). Cryptocurrencies are primarily issued and distributed on a "blockchain" or a cryptographically-secured ledger that exists on the internet. Virtual coins and tokens are traded on online platforms, typically called cryptocurrency exchanges, and they can be traded for other digital assets or fiat currencies, such as the U.S. Dollar or Euro.

The recent activities and publicity surrounding Bitcoin and other cryptocurrencies has spawned many Internet-based investment programs that utilize cryptocurrencies as a funding source and/or as the basis of the program. Many of these programs purport to utilize a secret and proprietary algorithm or other mechanisms to substantially grow investors' capital while in the program.

The public needs to be aware that most of these investment programs that have been identified by the Division to date are, in fact, unregistered securities and are illegal in North Carolina and most other jurisdictions. In the coming days, the Securities Division will be taking enforcement actions against programs that have been identified as a particular threat to North Carolina and its citizens.

In regards to these upcoming actions, Special Agent in Charge Shawn Pruett said, "It is important for the public to understand that these enforcement actions do not take a position on Bitcoin or

cryptocurrencies in general; rather they are actions against specific investment programs that happen to use cryptocurrencies as their basis. These unregistered investment programs would be just as illegal if they were based on U.S. dollars, the Euro or any other commonly recognized fiat currency.”

Kevin M. Harrington, the Director of the North Carolina Securities Division, said, “I think it’s too early to determine where technological innovations such as cryptocurrencies and other blockchain applications are going to lead us; one thing that is certain, though, is that there are bad actors out there who are using the current hype surrounding these technologies to lure people into schemes that are designed to create profit for the promoters of these schemes at the expense of the investors.”

The Securities Division reminds citizens that the securities laws, including registration requirements, are in place to protect the investing public in North Carolina. It is often the case that unregistered securities are fraudulent in nature and can cause great financial harm to unwitting investors. The NC Secretary of State’s Securities Division is the leading financial securities regulator and investor protection law enforcement agency in North Carolina. Anyone interested in making an investment should always first call (919) 814-5500 to make sure the person offering the investment, and the investment itself, are properly registered. Visit the North Carolina Secretary of State Division of Securities online at www.sosnc.gov for other helpful information on avoiding scams.

Other Resources

US Securities and Exchange Commission (SEC)

- [Investor Alert: Public Companies Making ICO-Related Claims](#) (Aug. 28, 2017)
- [SEC Issues Investigative Report Concluding DAO Tokens, a Digital Asset, Were Securities](#) (July 25, 2017)

North American Securities Administrators Association (NASAA)

- [NASAA Reminds Investors to Approach Cryptocurrencies, Initial Coin Offerings and Other Cryptocurrency-Related Investment Products with Caution](#) (Jan. 4, 2018)
- [Get in the Know About ICO's](#) (video)

Financial Industry Regulatory Authority (FINRA)

- [Don’t Fall for Cryptocurrency-Related Stock Scams](#) (Dec. 21, 2017)